

Daily Market Notes**Market Update:****DJIA:** 10291**S&P 500:** 1102**Nasdaq:** 2189**10YR T-Note:** 3.64%**EUR/USD:** 1.396**Gold** 1116**Crude Oil:** 76.87Prices Current as of
1:45 PM

Source: Bloomberg

So tell me, what changed between Friday's disastrous selloff that ended the worst month for stocks since last February, and yesterday? On Friday, there were three better than expected economic reports and good earnings from two important technology companies. After a gain of +118 points, the Dow went into reverse and closed with a loss of -53 points, capping three straight weeks of losses for the major averages, the first time that had taken place since last July. And then yesterday, with one good report from the ISM January Manufacturing Survey and one poor one from December Construction Spending, the market takes off to the upside, closing with a gain of +118 points, its best advance since the first trading day of the year in early January. One cannot be serious that it was the largest oil company's advance that was responsible for the gain, because all this beaten down stock did was attain the level it had reached last Wednesday on the way down from 76 in early December. And let us also remember that this stock was actually down for the year last year at the same time that the S&P, of which it is the largest member, made a strong gain.

Over the weekend, most market experts were shaking in their boots that stocks were overvalued and on the way to their first 10% downside correction since the bull market began. In addition, the troubles in those three basket case E.U. economies – Greece, Spain and Portugal – were said to be contributing to a slowdown in worldwide economic growth. After yesterday's strong gains, these same experts were now beaming with pride that earnings are great for the fourth-quarter and that the economy was on its way to recovering.

So what really happened to go from gloom to joy in two trading sessions? In our opinion, Friday's meltdown was nothing more than the traditional selloff on the last trading day of the month, a tendency we saw on 9 out of 12 occasions in the bullish year of 2009. And yesterday's strong gain was a continuation of the very pronounced tendency recently for the market to rise on the first trading day of the week, which we have now seen on 19 out of the past 21 first days of the week.

What was impressive was that breadth numbers were 4 to 1 positive, a sign that the broader market was participating with the leaders. And even though I have been

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com**Jason Wotman**

Research Analyst

(212) 417-8264

jwotman@nationalsecurities.com

Daily Market Notes

against this way of thinking, it was just as well that the dollar weakened a bit after being very strong lately, achieving its best levels since last July against the Euro. This helped the recently beaten down commodities such as oil, gold and copper finally advance, and the stocks that represent them such as energy, minerals and mining, also made nice gains.

After a slightly hesitant start today, the market is continuing yesterday's gains with a decent advance, once again led by the energy, resource and mining types of stocks, as the global economic growth story continues in the forefront this week after taking a backseat during the recent selloff. The only fly in the ointment today is that the Nasdaq/Dow ratio is poor due to the fact that a few of the large upside technology leaders from last year have all lost their upside pizzazz. This cooling off is taking place despite the analysts falling all over each other to raise the upside targets for them to price levels that might not ever be seen.

The one economic report today came in as expected, with December pending home sales up by +1%. This afternoon we get January vehicle sales, which are projected to show a slight decline from December's numbers. All of these economic reports are a warm-up for Friday's all-important January jobs number, which is now projected to show a gain of +8,000, and where were those gains supposed to come from? This number has been bouncing around every day for the past few days as the experts seem to be getting more nervous about this number as it approaches.

At one point the Dow was up by +80 points today and it would do well to finish at that level, mainly because the ratio is not good, which could prevent things from getting above that. And the last thing the market needs to see is the type of selloff that was so common during the correction of the past three weeks. One thing that is working in the market's favor and could possibly offset the negativity of the weak Nasdaq/Dow ratio is that breadth numbers are positive by 2 to 1, although this will vary as the major market averages move around.

This week's earnings lineup does not have the dramatic names that the last two

Daily Market Notes

weeks had, and there are three Dow components reporting. The lineup continues as follows – tonight: FISV; Wednesday: AKAM, AMP, BRCM, CSCO, HMC, LAZ, NVLS, PFE, RL, TWX, YUM; Thursday: AGN, CI, DB, K, MA, MCO, PRI, SNE, TM; Friday: AET, BZH, TSN, WY.

The economic lineup includes the following: Wednesday: ADP January jobs estimate; January ISM Non-Manufacturing Survey; Thursday: December factory orders; Friday: the all-important January jobs report.

For the fourth quarter, the S&P companies are expected to show a profit gain of +76%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, according to the analyst's estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of +22% in 2011.

After four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008 and extended through the first two quarters of 2009, we now have gotten two consecutive quarters of positive growth, with the third-quarter at +2.2% and the first estimate of G.D.P. growth for the fourth-quarter at +5.7%.

Daily Market Notes

Disclosures

Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, Associated Press}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.